(17)

MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

BEI2114 – INTERNATIONAL ECONOMICS

(All sections / Groups)

8 FEBRUARY 2023
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FOUR (4)** printed pages with **FOUR (4)** structured questions excluding the cover page.

2. Answer **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

ANSWER ALL QUESTIONS (100 MARKS)

Question 1

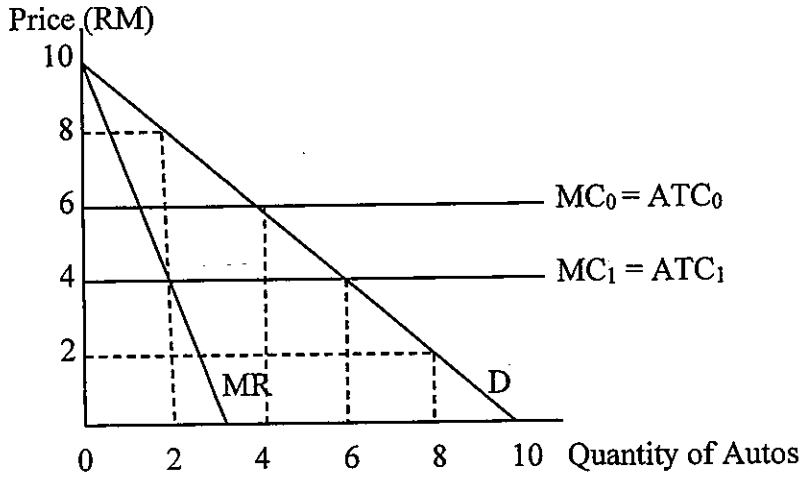
(a) 'Imagine that Cadbury company purchases a Singapore shoe chain and begins to operate its business in the year 2023.' Classify which type of integration the example above belongs.

(2 marks)

(b) Demand and cost factors tend to underlie a firm's decision to undergo direct foreign investment. For each factor mentioned, choose **TWO (2)** forms in anticipation of future profits.

(8 marks)

Figure 1: International Joint Venture



(c) **Refer to Figure 1**. Suppose that Malaysia's firm and China's firm jointly form a new firm, Venture Company, whose quantity of autos replaces the autos sold by the parents in the domestic market. Assuming that the Venture Company operates as a monopoly and that its costs equal $MC_1 = ATC_1$. Compute:

(i) Venture's Company price and output.

(2 marks)

(ii) the reduction in consumer surplus.

(2 marks)

(iii) the deadweight welfare loss for Malaysia's economy.

(2 marks)

(iv) the total producer surplus.

(2 marks)

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(v) whether the formation of a Venture Company is desirable.

(2 marks)

(d) With the help of a diagram, illustrate how labour migration tends to equalize wages.

(5 marks)

(Total: 25 marks)

Question 2

(a) There are three trade problems facing developing nations namely (1) unstable export markets, (2) worsening terms of trade and (3) limited market access. For each problem demonstrate the difficulty faced by developing nations.

(12 marks)

(b) Countries emphasising export-led growth have tended to realise higher rates of economic growth than countries emphasising import-substitution policies. Interpret this statement.

(13 marks)

(Total: 25 marks)

Question 3

(a) Classify whether each of the following items represents a debit or a credit on the Malaysia's balance of payments.

(i) A sale of Malaysia's financial assets to a foreign buyer.

(2 marks)

(ii) Singapore investors collect interest income on their holdings of Malaysian government securities.

(2 marks)

(iii) Japanese tourists visiting Petronas twin towers in Kuala Lumpur.

(2 marks)

(iv) Malaysian firms selling insurance to Indonesian shipping companies.

(2 marks)

(v) Gifts that Malaysian make to the poor in Palestine.

(2 marks)

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Table 1: Country A International Transactions

Transaction	Amount (Billions)
Merchandise imports	-120
Construction services	30
Compensation of employees	-10
Dividends on country A's investment abroad	25
Remittances, pensions, transfers	-10
Merchandise exports	125
Country A's private assets abroad	-60
Payments on foreign investment in country A	-30
Foreign private assets in country A	35
Allocation of Special Drawing Rights (SDRs)	20
Statistical discrepancy	?

(b) **Refer to Table 1**. Compute the current account balance. Show all your calculations.
(9 marks)

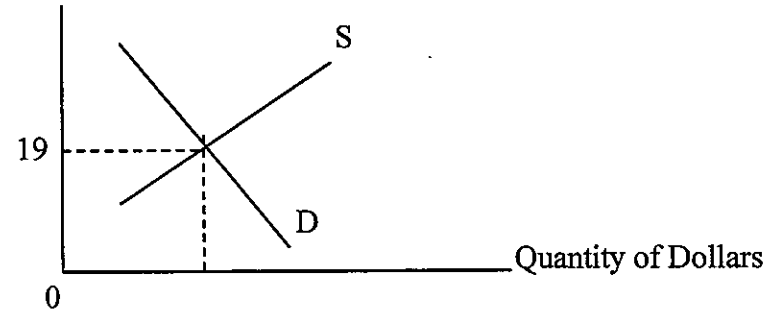
(c) **Refer to Table 1**. The existence of statistical discrepancy shows that the data collection process that underlies the published balance of payments figures is far from perfect. Compute the amount of statistical discrepancy to make the balance of payments account balance. Show all your calculations.
(6 marks)
(Total: 25 marks)

Question 4

(a) Concerning the foreign exchange market, one can best say that not all currencies are traded on the foreign exchange market. Interpret this statement.
(3 marks)

(b) Apply the concept of exchange arbitrage with an example that brings the exchange rate the same in all parts of the market.
(8 marks)

Figure 2: Market for Dollars ($)
Pesos per Dollar



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(c) **Refer to Figure 2.** If the current exchange rate is 19.43 pesos per dollar, classify the U.S. balance of payments situation.

(2 marks)

(d) **Refer to Figure 2.** Choose whether the dollar would be appreciating or depreciating in order to reach the equilibrium rate.

(2 marks)

(e) **Refer to Figure 2.** Demonstrate how the process would be expected to create an equilibrium balance of payments situation.

(4 marks)

(f) Choose **TWO (2)** advantages and **TWO (2)** disadvantages of a strengthening (appreciating) dollar.

(6 marks)

(Total: 25 marks)

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